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Dr Keith Kendall
Chair
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15 July 2022

AASB Exposure Draft 321 *Request for Comment on ISSB [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures*

Dear Dr Kendall

Ernst & Young is pleased to comment on the above Exposure Draft (ED 321). We welcome the opportunity to contribute to the future of sustainability-related financial reporting in Australia.

We support the Australian Accounting Standards Board (the AASB) in its efforts to developing sustainability-related reporting requirements in Australia, using the proposals contained in the Exposure Drafts IFRS S1 and IFRS S2 published by the International Sustainability Standards Board (the ISSB) as a baseline.

Please refer to our detailed responses on the questions raised in the ED 321 in the appendix to this letter. To the extent the questions are covered by EY Global's comment letter to the ISSB's Exposure Drafts, we would refer you to EY Global's responses.

We would be pleased to discuss our comments further with either yourself or members of your staff. If you wish to do so, please contact Frank Palmer on (02) 9248 5555 or Li-Peng Lim on (02) 9248 5399.

Yours sincerely

Ernst + Young

Ernst & Young

Appendix A

Responses to AASB Specific Matters for Comment

A1 Exposure Draft on [Draft] IFRS S1 is proposing that entities be required to disclose information that is material and gives insight into an entity's sustainability-related risks and opportunities that affect enterprise value. Is focusing on an entity's enterprise value the most appropriate approach when considering sustainability-related financial reporting? If not, what approach do you suggest and why?

On the basis that the focus of the ISSB standards is primary users of the general purpose financial reporting, we believe enterprise value is an appropriate approach when considering sustainability-related financial reporting.

Please also refer to EY Global's view in relation to enterprise value (question 2 of the ISSB Exposure Draft IFRS S1).

B1 To comply with the proposals in Exposure Draft on [Draft] IFRS S2 an entity would be required to disclose its Scope 3 greenhouse gas (GHG) emissions in addition to its Scope 1 and 2 GHG emissions. Do you agree that Australian entities should be required to disclose their Scope 3 GHG emissions in addition to their Scope 1 and Scope 2 GHG emissions? If not, what changes do you suggest and why?

Please refer to EY Global's views in response to question 9 (f) of the ISSB Exposure Draft IFRS S2 on the proposed inclusion of Scope 3 emissions, in addition to the Scope 1 and Scope 2 GHG emissions.

B2 To comply with the proposals related to GHG emissions disclosures in Exposure Draft on [Draft] IFRS S2 an entity would be required to apply the Greenhouse Gas Corporate (GHGC) Standard. Do you agree that Australian entities should be required to apply the GHGC Standard given existing GHG emissions legislation and guidance in place for Australian entities (for example, the NGER Act, NGER (Measurement) Determination 2008 and related guidance)?

Australian entities are currently required to comply with NGER Act and NGER (Measurement) Determination 2008 and related guidance for its Scope 1 and Scope 2 emissions. Under the current operational structure in Australia, entities are not provided with information (by the Australian government) in order to apply the GHGC Standard for their Scope 2 emissions. We believe therefore it would be practicable for Australian entities to continue applying these existing Australian requirements for their Scope 1 and Scope 2 emissions disclosure. Consistent with EY Global's views, additional disclosure could be made to explain why an alternative model to the GHGC standard is used and any methodology differences between the adopted model and the GHGC Standard.

However, GHGC Standard could be applied for Scope 3 emissions disclosure.

Please also refer to EY Global's views in response to question 9(c) of the ISSB Exposure Draft IFRS S2.

B3 Are the proposed industry-based disclosure requirements in Appendix B to Exposure Draft on [Draft] IFRS S2 relevant for Australian industries and sectors? If not, what changes do you suggest and why?

We believe the industry-based guidance is equally relevant for Australian industries and sectors.

Please also refer to EY Global's views in response to question 11 of the ISSB Exposure Draft IFRS S2 on this regard.

B4 Are there any Australian-specific climate-related matters that the AASB should consider incorporating into the requirements proposed in Exposure Draft on [Draft]IFRS S2? For example, given the Exposure Draft on [Draft] IFRS S2 is the starting point for the AASB's work on climate-related financial disclosure, should there be additional reporting requirements for Australian entities? If so, what additional reporting requirements should be required and why?

Please refer to our response to question B2 regarding the NGER (Measurement) Determination as noted above.

Similar to the current process of adopting IFRS standards, we recommend performing a post implementation review after a reasonable implementation period to assess whether the proposed requirements are appropriate and if any additional reporting requirements are needed to meet the users need.

C1 Which Australian entities should be expected to apply the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 and why? Specifically:

(a) should the proposals be intended for all for-profit entities in Australia or only to a subset of for-profit entities? and

We believe Australia's existing financial reporting framework should be consistently applied to sustainability related reporting. Therefore, the concept of whether for-profit entities are "publicly accountable" should drive the need for disclosure. All for-profit entities that are publicly accountable should be required to apply the proposals in the ED 321 in its entirety. The AASB may wish to consider "simplified disclosure" requirements for non-publicly accountable entities (which are preparing General Purpose Financial Statements Tier 2 under the current financial reporting framework).

Please also refer to EY Global's views in response to question 5 in ISSB Exposure Draft IFRS S1 on a similar issue.

(b) should relief from specific aspects of the proposals be permitted for some entities for which the proposals are deemed burdensome (for example, Scope 3 GHG emissions and scientific and scenario analyses)? If so, which entities and why?

We recommend exploring possible reliefs by taking a similar approach to the existing financial reporting framework. Please refer to our response in C1 (a) above.

C2 Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

The only issue we are aware of is regarding the application of the GHGC Standard for Scope 2 emissions disclosure as noted in our response to question B2 above. Particularly, the residual mix factor currently determined and provided by the Australian government is not compatible with the approach required under the GHGC Standard. We are not aware of any other regulatory or other issues arising in the Australia that may affect the implementation of the proposals.

C3 Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 align with existing or anticipated requirements, guidance or practice in Australia? If not:

Based on our observation, the proposals in the ISSB Exposure Drafts IFRS S1 and IFRS S2 are broadly aligned with the ASX Corporate Governance Principles and Recommendations (in particular Principle 7) although the ISSB proposals provide further detailed guidance on the relevant disclosures.

(a) please explain the key differences that may arise from applying the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 and the impact of any such differences; and

We observe the following key differences that may arise from applying the proposals in the Exposure Drafts on IFRS S1 and IFRS S2 as compared to the existing requirements in Australia:

- the differences noted in our response to question B2 regarding the NGER (Measurement) Determination and related guidance as noted above;
- the Prudential Practice Guide CPG 229 Climate Change Financial Risks (CPG 229) issued by the Australian Prudential Regulation Authority (APRA) uses shorter and longer term as the time horizons that entities are required to consider for assessing the impacts of the climate change, whereas the ISSB Exposure Drafts IFRS S1 proposes considering short, medium and long term in assessing the potential impact.

(b) do you suggest any changes to the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

Please refer to our response to question B2 regarding the NGER (Measurement) Determination and related guidance as noted above.

C4 Would the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 result in useful information for primary users of general purpose financial reports?

Please refer to views expressed in EY Global's comment letter under questions 4 of ISSB Exposure Draft IFRS S1 and question 2 of ISSB Exposure Draft IFRS S2.

C5 Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 create any auditing or assurance challenges?

Please refer to EY Global's views in response to question 1(d) of the ISSB Exposure Draft IFRS S1 and question 13 of ISSB Exposure Draft IFRS S2.

C6 When should the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be made effective in Australia and why?

Although we emphasise the importance of aligning the effective date with that proposed by the ISSB, it may be appropriate to consider a phased-in approach for different types of entities. We consider Australian entities which are publicly accountable should be subject to the same effective date as the ISSB's proposed effective date; while it might be appropriate if a one-year deferral is provided to Australian non-publicly accountable entities.

Please refer to EY Global's views in response to question 13(a) of the ISSB Exposure Draft IFRS S1.

C7 Should the effective date of the proposals in Exposure Draft on [Draft] IFRS S1 be consistent with, or set for a date after, the effective date of the proposals in Exposure Draft on [Draft] IFRS S2? If so, why?

Please refer to EY Global's views in response to question 14(a) of the ISSB Exposure Draft IFRS S2.

C8 Would any wording or terminology introduced in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be difficult to understand? If yes, what changes do you suggest and why?

Please refer to EY Global's views and suggestions provided under question 3(a) and question 17 of the ISSB Exposure Draft IFRS S2.

C9 Unless already provided in response to specific matters for comment A1 to C8 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

Please refer to EY Global's views in response to questions 5 and 16 of the ISSB Exposure Draft IFRS S1, questions 4(a), 5(d), 6(a), 7(b)(iii), 7(e) and 12 of the Exposure Draft IFRS S2, where the costs and benefits of the proposals have been discussed.

D1 Do you agree with the AASB's proposed approach to developing sustainability-related financial reporting requirements as a separate suite of standards? As an alternative model, the AASB would value comments as to whether sustainability-related financial reporting requirements should be developed as part of existing Australian Accounting Standards. The alternative model would result in sustainability-related financial disclosures forming part of an entity's general purpose financial statements.

We agree with the proposed approach of developing a separate suite of standards, which is consistent with the approach taken by the IASB/ ISSB and a number of overseas jurisdictions. This would provide flexibility to the AASB in developing sustainability-related financial disclosures in Australia while leaving the decision to mandate sustainability reporting to the relevant policy makers and regulators.

D2 Are the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 in the best interests of the Australian economy?

We believe the proposals in the Exposure Drafts both IFRS S1 and IFRS S2 are in the best interests of the Australian economy.

Similar to the underlying principles driving the adoption of the IFRS standards, adoption of the proposed ISSB Standards should improve the comparability and connectivity of sustainability-related financial information presented by entities, and thereby to strengthen transparency, accountability and efficiency in capital markets around the world.

Further, the ISSB and IFRS standards share a number of underlying reporting principles which the Australian entities and users are familiar with. This could potentially streamline the implementation of the sustainability reporting standards by leveraging the existing knowledge on the financial reporting principles.

We recommend that the AASB continues to contribute to the ISSB process for greater guidance that will enable improved consistency and transparency for investors' decision-making.